



UPPER FLOOR RESIDENTIAL REHAB PROGRAM

CITY OF COVINGTON, KENTUCKY

DOWNTOWN CORE AREA/RITTE'S CORNER DISTRICT

PROGRAM YEAR 2016- 2017 GUIDELINES

I. PROGRAM SUMMARY

The Upper Floor Residential Rehab Program is funded through the Community Development Block Grant Program and administered by the City of Covington's Department of Development. The purpose of the program is to assist owners of mixed use buildings in the targeted areas with the redevelopment of upper floor vacant space into quality rental housing. Under this program, owners may obtain funds from the City to achieve this goal. The funds may only be used to cover the costs associated with the redevelopment of the residential space. The rehabilitation of the property must include improvements to the facade if necessary, paid from other sources available to the owner.

Buildings with residential use on the front street level are not eligible for funding. Buildings that propose commercial space on the front street level and residential use in the back of the building may be eligible for funding. Buildings proposing to convert front street level use from residential to commercial will be considered if a formal written agreement with the commercial tenant exists and the commercial use meets zoning requirements. Building permits will be required for the commercial space prior to disbursement of funds for the residential units. City funding may not be used to assist in the conversion.

The City, at its discretion and based on funding availability, may use non-federal funds to assist in the renovation of upper floor units. Restrictions imposed by federal funds such as income eligibility and prevailing wage requirements would not be applicable when non-federal funds are used. However, historic requirements and lead based paint rules will apply.

II. LOCATION

Eligible buildings must be located within the Downtown Core area or the Ritte's Corner district. Boundaries of the areas are shown in the attached maps.

III. PROCEDURES

- a. Funding is available on a first come, first served basis. Projects must meet underwriting requirements with a 5 year positive cash flow based on actuals and at minimum rent limits. Applications will be reviewed by the Loan Committee.
- b. Property owners must submit an Upper Floor Residential Rehab application and required supporting documentation.
- c. Applications will be reviewed and evaluated based on the underwriting criteria attached. Projects will be reviewed by the Loan Committee and approved for funding. Multiple projects may be approved based on funding availability. The approval of the application will include terms and conditions under which funding will be provided

IV. REQUIREMENTS

1. **Property Owner Qualifications:**

To qualify for the Program, the owner must meet the following requirements:

- a. **Good Standing:** Pursuant to Commissioners' Ordinance O-11-06, applicants and affiliated persons and/or entities for this program must not have made or filed pending adverse claims against the City in the form of settlement demands and/or lawsuits; nor shall they be delinquent in their obligations to pay loans, fines, liens, or other obligations owed to the City of Covington ("the City"). No person or entity will be denied federal public or assisted housing agency benefits or programs administered by the City as a result of this policy.
- b. All other properties owned by applicant in Covington must be in good standing, including condition of the units

2. **Property Qualifications:** To be eligible to receive City funding, the property for which assistance is sought must meet the following requirements:

- a. **Eligible Properties:** Only mixed use structures are eligible. Only the upper floor areas are eligible for the funding, and the upper floor area must be vacant for a minimum period of **90 days** prior to submitting application. Projects consisting of 8 or more dwelling units or involving simultaneous commercial and residential rehabilitation may trigger compliance with federal prevailing wages as issued by the U. S. Department of Labor (DOL) as required by the Davis-Bacon and Related Acts. The accessibility requirements of Section 504 of the Rehabilitation Act of 1973 may be triggered depending on the number of units and scope of the work to be undertaken. City staff will work with owners to ensure compliance with all applicable requirements.
- b. Buildings with residential units under construction at time of application may not be eligible.
- c. Only owners of properties may apply for the City funding. The applicant must have fee simple title to the property at time of application or prior to award of funding. Owners may submit one property per program year.
- d. **Targeted Areas:** The property must be located in the downtown core area or the Ritte's Corner district. See attached maps.
- e. **Property Standards:** The property must meet all state and local codes at the completion of rehabilitation. The City will inspect the property to ensure compliance with these standards. The City will evaluate on a case-by-case basis when owners propose rehabilitating only a portion of the building as part of the submitted project. The use of green construction methods and energy efficient design is encouraged.
- f. **Structures built prior to 1978** will be inspected in order to detect the presence of defective or deteriorated paint surfaces. This inspection and any required paint stabilization will be governed by The Department of Housing and Urban Development's Lead Safe Housing Rule and the Environmental Protection Act (EPA) Renovation, Repair and Painting rule (RRP).
- g. **Zoning:** The property must be in compliance with applicable zoning regulations.
- h. **Federal Regulations:** Activities funded through the Federal Community Development Block Grant Program are subject to requirements outlined in 24 CFR Part 570.
- i. **Façade:** Façades visible from the public right of way must be in improved condition. City funding under this program may not be used to improve the façades. Façades must be in a condition that does not detract from the architectural character of the building. When feasible,

the original design should be restored or restored so that it is contextually appropriate. (See attachment – Historic Storefront Façade Improved Conditions Checklist)

- j. **Other Requirements:** The City has the right to inspect the units annually for a period of five years from completion.

3. Tenant Qualifications:

- a. **Tenant Income:** At initial occupancy of the units, tenant incomes must meet the following requirements in projects involving:
 - i. **One residential unit:** tenant's gross income cannot exceed 80% of area median income as defined in the chart below ("low/mod tenant").
 - ii. **Two residential units:** one unit must be occupied by a low/mod tenant. The remaining unit is not income restricted.
 - iii. **Three or more units:** 51% of the units must be occupied by low/mod tenants. The remaining units are not income restricted.

2016 HUD Income Guidelines

Persons in Household	Maximum Income
1	\$39,600
2	\$45,250
3	\$50,900
4	\$56,550
5	\$61,100
6	\$65,600
7	\$70,150
8	\$74, 650

- b. **Tenant Lease:** Owner must enter into one year lease with each tenant.
- c. **Tenant Rents:** Required affordable units must be occupied by households at affordable rents. The landlord may choose one of the following methods to determine affordable rents. Affordable rents are the gross rent which includes rent paid to landlord and cost of all utilities. If tenant pays any portion of the utilities, contact City for mandatory deductions from the amounts below.

1) Fiscal Year 2016 Kenton County Fair Market Rents as published by the Department of Housing and Urban Development.

Bedroom Size	Maximum Monthly Rent
Efficiency	\$509
1 Bedroom	\$600
2 Bedroom	\$787
3 Bedroom	\$1,102
4 Bedroom	\$1,297

2) Monthly rent not to exceed 30% of tenant's monthly gross household income.

V. REHABILITATION PROCESS

- a. **Certified Architectural Drawings** (as required by the Planning and Development Services of Kenton County): Copy must be provided to the Development Department as part of the application process.
- b. **Permitting:** All applicable state and local permits must be acquired through the Planning and Development Services of Kenton County or other entity prior to work commencing. Documentation must be supplied to Development Department.
- c. **Reimbursement basis:** Funding is handled on a reimbursement basis, contingent upon receipt of satisfactory documentation.
- d. **Non-Discrimination Requirements:** The Program will be implemented in ways consistent with the City's commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with federal funds on the basis of his or her disability, age, sex, race, color, religion, ancestry, national origin, sexual orientation, gender identity, familial status, marital and/or parental status or place of birth, or other arbitrary cause.
- e. **Contractors:** All work must be completed by contractors, unless otherwise waived by the Department of Development. Contractors and subcontractors must be licensed by the City of Covington and must be in good standing with the City prior to the commencement of work per City Ordinance O-11-06.

VI. FUNDING TERMS/SCOPE OF WORK

a. **Standard Terms:**

1) Funding Limit: The City will fund up to **50%** of the total cost to rehabilitate the residential units based on funding availability (not to exceed **\$20,000** per unit for eligible rehab expenses).

2) Loan Terms: Real estate loans shall be evaluated based on:

Ability to repay: Projects should have at least 1.2 projected debt coverage ratio.

Collateral: Projects should have a loan to value ratio sufficient to secure the City mortgage, which must be supported by an after-rehab appraisal or current value prior to funding. If loan to value ratio exceeds 110% of the after-rehab value, outside collateral may be required. Outside guarantees may suffice for additional collateral and will be evaluated on a case-by-case basis.

Cost Reasonableness: The development costs will be evaluated based on staff estimates and comparisons to development costs of similar properties.

Development Team Capacity and Experience: The development team must have capacity to complete the project as demonstrated by past projects.

3) Repayment Terms: City funding will be in the form of a 0% interest, deferred payment loan and secured by a mortgage on the property. The loan will be forgiven in its entirety if the property remains in compliance for five years. Failure to maintain compliance for the full term will result in the repayment of the entire City funding.

The City will execute a development agreement with property owners that will outline the requirements and expectations of program performance, including timelines and scope of work.

b. Rehab Scope of Work: The City will inspect the property and identify all code violations. All violations must be corrected. Rehab specs will be reviewed by the City. All work must be performed in accordance with historic standards and the Department of Housing and Urban Development's Lead Safe Housing Rule. This includes the use of RRP certified contractors and clearance testing performed by certified lead risk assessors at the completion of the rehabilitation. The City will inspect the property during and at the completion of construction.

VII. Conflict of Interest:

A conflict of interest exists if an applicant is an employee, agent, consultant, officer elected or appointed official to the City of Covington, and if the applicant:

- Exercises or has exercised any functions or responsibilities with respect to funds for this program, or
- Participates in the decision making process related to funds for this program, or
- Is in a position to gain inside information with regard to program activities.

If a conflict of interest exists, the applicant may not obtain assistance under this program. If there is any doubt of the conflict of interest, a written waiver may be obtained from the City of Covington.

For further information on the Upper Floor Residential Rehab Program, contact:

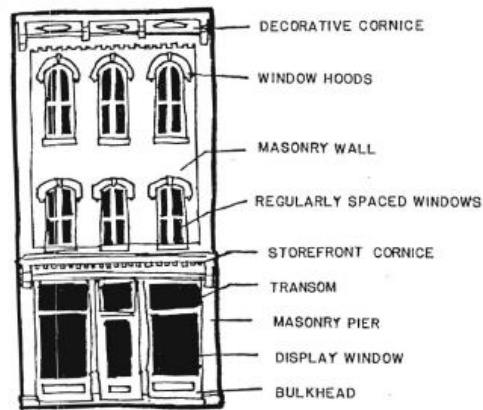
City of Covington
Department of Development
20 West Pike Street
Covington, KY 41011
(859) 292-2323
800.545.1833 ext. 931 (TDD/TTY)



Green Building Techniques

- Most units will be within ¼ mile of one or more stops for two or more public bus lines.
- All adhesives, sealants and primers used on the interior of all buildings and applied on site will comply with South Coast Air Quality Management District Rule #1168.
- Fifty percent (50%) of wood based materials and products that are certified in accordance with the Forest Stewardship Council's (FSC) Principles and Criteria for wood building components.
- Vegetated open space will be provided in areas where site size permits, and will be an area equal to: 1) 20 percent of the project site area, or 2) equal to the building foot print. Vegetated open space is defined as lawns, gardens, plant beds, and fish ponds with plants, shrubs or trees.
- Install compact florescent light bulbs (CFLs) in the homes.
- Utilize rapidly renewable floor materials such as bamboo, linoleum, cork or eucalyptus to cover a minimum of 25% of the floor area of each unit.
- Provide covered storage facilities and racks for securing bicycles for fifteen percent (15%) or more of building occupants.
- Install programmable thermostats in the homes.
- Develop and implement a construction waste management plan that recycles or salvages at least fifty percent (50%) of non-hazardous construction and demolition debris.
- Install tankless water heaters in each unit where feasible.
- Use recycled, salvaged, refurbished or reused materials such that the sum of these materials constitutes at least ten percent (10%) of the total value of materials on the project.
- Use building materials which have been extracted, harvested, recovered or manufactured within five hundred (500) miles of the project site for a minimum of ten percent (10%) of the total material costs.
- Use only carpeting which meets the product testing requirements of the Carpet and Rug Institute's Green Label Plus program throughout project.
- The average flow rate for all lavatory faucets will be ≤ 2.0 gpm (water saving measure).
- The average flow rate for all showers will be ≤ 2.0 gpm (water saving measure).
- The average flow rate for all toilets will be ≤ 1.3 gpf (water saving measure).
- Toilets will be dual-flush and meet the requirements of ASME A112.19.14 (water saving measure).
- Toilets will meet the U.S. EPA WaterSense specification and will be certified and labeled accordingly (water saving measure).
- All domestic hot water piping will have R-4 insulation. Insulation will be properly installed on all piping elbows to adequately insulate the 90-degree bend.
- Central hot water manifold trunk will be no more than 6 feet, insulated to R-4, with no branch line exceeding 20 foot.
- Compact hot water supply line design with no run over 20 feet from water heater.

Historic Storefront Façade Improved Conditions Checklist



- ☐ _____ 1. In general the proportions of the building should reflect a historic storefront with 75% of the first floor storefront being glass. Please see above for what a typical storefront should look like.
- ☐ _____ 2. There should be no peeling paint on the front façade.
- ☐ _____ 3. There should be no spalling bricks or major tuckpointing work that needs to be performed.
- ☐ _____ 4. All signs should be in compliance with the current Covington Design Guidelines and the Zoning Standards.
- ☐ _____ 5. Windows should not be boarded or bricked up. All windows should be free of cracks and should not be blacked out with either paper or tint.
- ☐ _____ 6. Cornice elements are in good repair and are all in place. They should be free of rot or missing elements.
- ☐ _____ 7. Any metal on the storefront should be free of rust, corroded parts or missing elements.
- ☐ _____ 8. Doors should be historic in nature and should be appropriate to the architecture of the building. In general storefront doors should be either a half or full light. Doors to 2nd floor units can be solid, but should be paneled (typically a 6-panel door). Doors should fill the entire original opening.
- ☐ _____ 9. All upper story windows on the front façade should be in compliance with the Covington Design Guidelines. They should be wood or aluminum clad wood windows that fill the entire original opening. If the windows were originally metal windows, they can be either metal or aluminum clad wood windows.
- ☐ _____ 10. There should not be any vinyl, aluminum, cedar shake, or other artificial siding on a storefront façade.

Appendix A - Underwriting Guidelines/Feasibility Analysis

- 1) Project Viability
 - a. Funding – Documentation of sufficient funding, including City funds, to cover all reasonable costs identified in the project's sources and uses form
 - b. Capacity – Information on past projects of similar scope to demonstrate applicant has ability to complete the project
- 2) Project Readiness
 - a. Other funds are committed or will be committed within a reasonable period of time
 - b. Site Control
 - i. Fee simple title at time of application
 - ii. If not owned, must have valid option to purchase at time of application
- 3) Financial Analysis
 - a. Development Feasibility
 - i. Project development costs as provided by applicant reviewed to determine if reasonable based on similar projects and City staff estimates of cost
 - b. Operational Feasibility
 - i. Project cash flow should only show the residential part of the project, separate from cash flow from non-residential operations of the building
 - ii. Project should show positive residential net cash flow for a period of 5 years.
 - iii. Operating costs should be reasonable
 - c. Underwriting – Project falls within the underwriting criteria established by the City (Appendix A)

Summary of Feasibility Guidelines

Development

Criteria	Ranges – Limits
Maximum City Assistance	Up to 50% of total development cost
Per Unit Limit	Up to \$20,000 per unit
Collateral Requirements	Loan to value ratio no more than 90% If greater than 90%, outside collateral to provide 80% LTV may be required
Construction Hard Costs	Minimum 75%
Developer fee (percent of Total Development Cost, not including developer fee)	Maximum 15%

Operating (review of 5 year operating budget)

Criteria	Ranges – Limits
Debt Coverage Ratio (Operating Income – Replacement Reserves)/Total Debt Service	Minimum 1.20 Maximum 1.35
Vacancy Rate	Assume 10%
Replacement Reserves	Maximum \$400 per unit per year
Net Cash Flow	Must be positive through year 5